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SUBJECT: PORTUGAL: IMPACT OF RISING FOOD/COMMODITY PRICES

REF: STATE 39410

11. SUMMARY: When it comes to rising cost of food and agricultural commodities, Portugal is one of the most vulnerable member-states in the European Union (EU). In fact, the average Portuguese family will spend 620 euros (974 USD) more for food in 2008 - a 38% increase over 2007. This vulnerability is largely due to Portugal's heavy dependence on agricultural imports and high import duties. Portugal hopes that by increasing the land available for cultivation, it will be able to boost domestic production. Temporary EU measures to lift certain duties should also ease the burden somewhat. However, current economic conditions suggest that Portugal will need to look at more long-term shifts in policy and technology in order to alleviate continuing price pressures on agricultural commodities.

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THE VULNERABILITY OF IMPORT DEPENDENCE  
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12. Portuguese households spend over 19% of their income on food, a relatively high proportion compared to the 15% average among EU member states. The only category of expenditure that is higher is transportation, at 20.6% of the average family's budget. Nearly every single staple of the Portuguese diet increased in price over the past 12 months, as reflected below by the Portuguese National Institute for Statistics (INE). A recent Portuguese study predicts that food costs will increase 620 euros (974 USD) per family in 2008 -- a 38% increase over 2007.

Price Change in Staples in 2007 (over 2006)  
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Dairy (Milk, Cheese)	14.0%
Eggs	14.0%
Bread	9.0%
Wheat	2.1%
Vegetables	-15.0%

Note: The exception to the inflationary trend is a 15% drop in the price of vegetables, explained by the Portuguese Ministry of Agriculture as largely due to the competitive trade between Portugal, and nearby producers such as Spain, and North African countries such as Morocco. End Note.

13. Portugal's gradual but steady decline in the agricultural sector drives its deepening dependence on imports and growing sensitivity to world commodity markets. Portugal's agricultural imports comprise 14% of total imports. Cereals and grains is an area of particular vulnerability, with imports increasing by an average of 44% in 2007, detailed below by INE. The Confederation of Portuguese Farmers (CAP) estimates that Portuguese farmers produce only 8% of the cereals and grains required for domestic consumption.

¶4. Portugal imports many of its cereals and grains from within the EU. South American countries such as Brazil and Argentina represent a second source of cereals and grains into Portugal. For example, Portugal imports more soybeans from Brazil than any other country -- nearly four times the volume of soybeans that it imports from the United States. South American countries also dominate the corn market in Portugal, a traditionally strong export crop for the United States.

Increases in Select Cereal and Grain Imports, 2007 (over 2006)

Soy	87%
Rice	74%
Corn	31%
Wheat	131%

¶5. The Portuguese feed industry is particularly sensitive to pricing pressures on cereals and grains. The approach of the livestock industry to this upward price trajectory is to embrace biotechnology and push the EU for the timely approval of biotech events for import. It is the vocal position of the Portuguese Association of Feed Producers (IACA) that European livestock producers will be unable to compete in the long-term with countries where biotech crops are more readily available for use as feed.

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SHARP INFLATION AND THE "NEW POOR"

¶6. The annualized inflation rate of 3.1% as of March 2008 continues to stoke deep concerns that the economy will continue to underperform. Rising commodity prices constitute 23% of total inflation in Portugal. The vulnerability of the Portuguese economy to "agro-flation" is heightened by the heavy dependence of Portugal on imports in food and beverages -- standing at a full 4% of the GDP. The pressure continues to mount in ways one would expect. For example, government employees recently requested that their cost of living adjustment reflect the actual inflation rate and not the more modest 2.1% that had been predicted.

¶7. The head of the NGO Banco Alimentar Contra A Fome (Food Bank Against Hunger) states that rising commodity prices are giving rise to a "new poor." In contrast to certain sectors of the society that have traditionally felt the effects of poverty, such as the elderly or very young, this category of "new poor" includes employed people who struggle to pay for basic foodstuffs, transportation, and housing. INE's most recent statistics calculate that nearly two million people in Portugal, a full 20% of the population, fall below the poverty line.

TWEAKING POLICY NOT LONG TERM SOLUTION

¶8. The Government of Portugal (GOP), as an EU member state, hopes to see benefits from two measures taken at the EU level by the end of 2007. First, the EU decided to temporarily suspend customs duties for cereals. It also decided to abolish the compulsory set-aside regime for cereals and other products, under which certain tracts of land must remain fallow. This suspension is for an initial period of one year and will be reviewed under the French EU Presidency later this year. Furthermore, Portugal is hoping that the higher price of cereals within the EU will prompt farmers to produce more domestically.

¶9. The GOP continues to be a leader in the EU in advocating biotechnology as a way to address agricultural shortages. It is pushing for a quicker and more predictable approval process in Brussels, as well as for greater acceptance of scientific oversight of the European Food Safety Authority (EFSA). The Ministry of Environment continues to express its reservations about increased cultivation of biotech crops in Portugal, though recent monitoring studies by the Ministry of Agriculture go far in documenting the safety of biotech cultivation.

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COMMENT  
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¶10. As the 2009 national elections approach, the Portuguese government will grow increasingly nervous about the political implications of rising food costs unless the EU measures designed to stimulate domestic production and stabilize prices, described in paragraph 8, begin to yield concrete results in the near-term. While Portugal may experience some short-term relief from the temporary lifting of import taxes and of the set-aside regime, Post believes that leaps in agricultural productive capability will come from new biotechnologies. A more efficient, transparent, and predictable process for approving the cultivation and import of biotech crops into the EU is absolutely essential for sustainable long-term agriculture, and Post continues to encourage Portugal in its pro-biotechnology stance.  
Stephenson